COMMONWEALTH OF VIRGINIA
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LGIP LOCAL GOVERNMENT INVESTMENT POOL

Participant Newsletter September 30, 2021

LGIP
Investment Guidelines Compliance (09-30-21):

● Diversification:	Actual	Max.
U. S. Treasury/Agency	30%	100%
Repurchase Agreements	10%	50%
Negotiable CDs & BAs	28%	40%
Commercial Paper	28%	35%
Corporate	0%	25%
AAA Sovereign Govt	4%	10%

● Maturity Limitations:		
Average Days to Maturity	43 days	60 days

LGIP Monthly Statistics (09-30-21):

- Avg NAV: $8,017,725,000
- Active Accounts: 834
- Simple Yield: 0.06%
- Effective Yield: 0.06%
- NAV (per Share): $1.00

Quarterly Performance:

● Average Yield:	1st Qtr FY 22	YTD FY 22
LGIP ($ weighted)	0.06%	0.06%
Institutional Money Funds[1]	0.02%	0.02%
Treasury 3-Mo. Constant Maturity[2]	0.05%	0.05%

[1]Consists of 477 institutional money market funds totaling $3.1 trillion as reported by iMoneyNet as of 09-30-21.

[2]Federal Reserve Bank H.15 Release.

LGIP EM
Investment Guidelines Compliance (09-30-21):

● Diversification:	Actual	Max.
U. S. Treasury/Agency	38%	100%
Repurchase Agreements	0%	50%
Negotiable CDs & BAs	25%	45%
Commercial Paper	11%	35%
Corporate	20%	25%
AAA Sovereign Govt	3%	10%
Virginia Treasury LGIP Portfolio	3%	15%

● Duration Limitations:	1.1 years	1 Yr +/-3Mo

LGIP EM Monthly Statistics (09-30-21):

- NAV: $325,349,000
- Active Accounts: 35
- Simple Yield: 0.17%
- Yield as of 09-30-21: 0.17%
- NAV (per Share): $10.01

Quarterly Performance:

● Total Return:	1st Qtr FY 22	YTD FY 22
LGIP EM	0.05%	0.05%
U.S. 1-Year Treasury Bill Index[1]	0.07%	0.07%
● Average Yield:		
LGIP EM ($ weighted)	0.17%	0.17%
U.S. 1-Year Treasury Bill Index[2]	0.07%	0.07%

[1]The annual performance benchmark is BofA Merrill Lynch U.S. 1-year Treasury Bill Index + 15 bps.

[2]The ICE BofAML US 1-year Treasury Bill Index Yield to Maturity as of 09-30 2021.

Market and Economic News

LGIP Program fund yields were stable during the June-September quarter, reflecting the Fed's commitment to supporting economic recovery by keeping policy rates near the zero-lower-bound. More recently, US Treasury security valuations have declined (yields rose) in September as Federal Reserve policy-makers appear to be inching closer to beginning a pull-back of financial market support measures in light of the strengthening domestic economy. The third estimate for second quarter US GDP was 6.7 percent, slightly higher than the previous estimate, with the positive revision mostly driven by personal consumption. The probability of a full 25 basis points hike to the Fed funds rate a year from now has firmed since the late September FOMC meeting, reflecting the increased number of policy-makers that expect conditions for a rate increase to be appropriate at that time.

As expected, the FOMC made no changes to policy rates during the September meeting. However, the accompanying statement was perceived as 'hawkish' and as solidifying the Fed commitment toward tapering purchases of Treasuries and Mortgage Backed Securities for the System Open Market Account (SOMA), possibly before the end of this year. Despite a hawkish tone, FOMC participants revised GDP expectations lower and inflation expectations higher. A number of participants expressed worry about upside inflation risks. Finally, and most importantly for the yield outlook for internally managed money market funds, the Fed funds policy rate outlook showed FOMC participants beginning to support a liftoff from the zero lower bound sooner than previously forecasted. The median Fed funds rate by year-end 2022 rose to 25 basis points (from 12.5 basis points) in the latest Summary of Economic Projections ('SEP') release. Furthermore, FOMC members project a target rate of one percent by year-end 2023 versus 0.625 percent projection at the June meeting.

In what has become an inevitable periodic disruption to the financial markets, investors began pricing in a potential debt ceiling breach this summer, expecting that emergency measures would be exhausted by early November. That deadline moved forward when Secretary Yellen provided her only formal estimate of the date the US would run out of money without further debt issuance, October 18th. Yields spiked on Treasury bills maturing immediately before and after that date. The path towards higher bill rates echoed similar events in 2011 and 2013 until a compromise was reached on October 7th. In those instances, short-term bill yields peaked above 50 and 25 basis points respectively while bill yields remained firmly below 20 basis points this month. Such volatility has become commonplace during debt ceiling debates, however the temporary extension will only cement investor conviction that Congress will always act to extend the limit.

A $480 billion increase to the debt limit will fund the federal government through December 3rd but a more durable solution still needs to be reached. More unusual ideas to address the debt ceiling such as minting of a trillion dollar platinum coin appear less likely now that Congress has ample time to incorporate an increase through reconciliation. Should no solution emerge by mid-November, US Treasuries will start pricing in the potential for US default again. Public funds investors could be faced with difficult choices such as whether to allow managers to hold US Treasuries during a technical default. Additionally, one or more of the major ratings agencies may take action on the US sovereign rating. S&P is currently the only rater to score the US Treasury below triple-A but Fitch and Moody's have indicated that a downgrade is possible due to political gridlock.